

By: Acting Corporate Director of Finance

To: Pension Board – 14 June 2019

Subject: **FUND EMPLOYER MATTERS**

Classification: Unrestricted

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Summary: To report on employer related matters for the period to 31 March 2019, matters relating to admitted bodies, information on Hadlow College, consultations and actuarial issues.

**FOR  
INFORMATION**

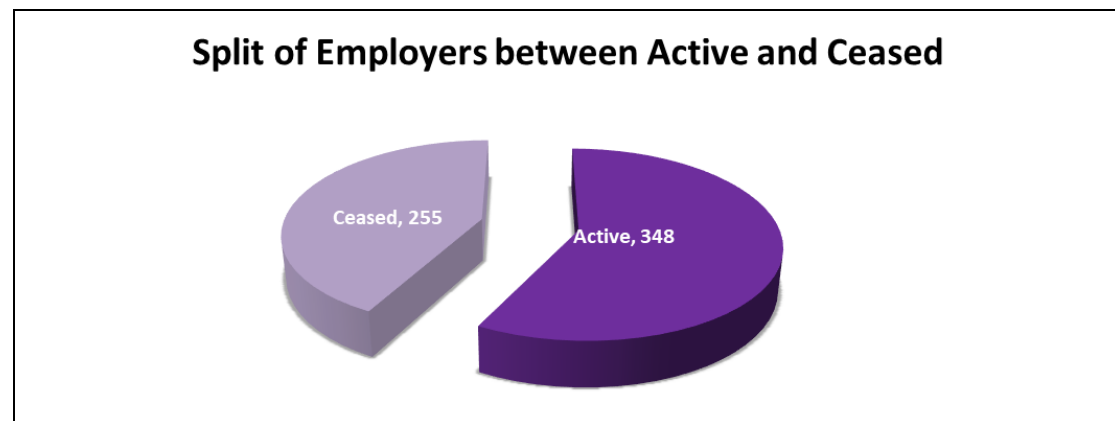
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## **INTRODUCTION**

1. This report sets out information on employers, matters related to admitted bodies, Hadlow College, consultations and actuarial issues.

## **EMPLOYERS IN THE FUND AT 31 MARCH 2019**

2. There were a total of 603 employers in the Kent Pension Fund, an increase of 2 from 31 March 2018.



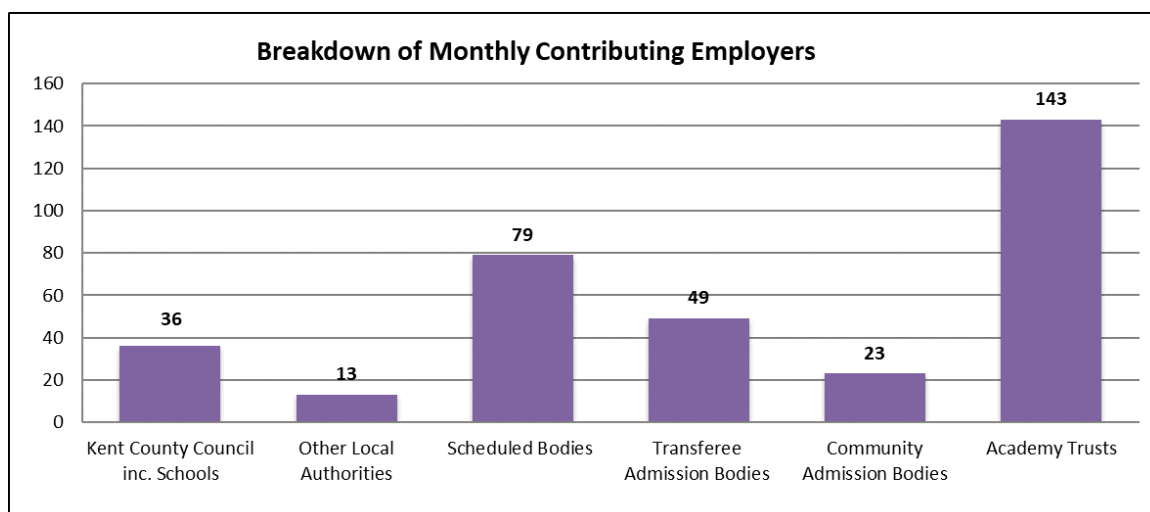
3. The following table lists employers who either joined or ceased to have active members in the Fund during 2018-19.

New Employers	Effective date
<b><i>Scheduled Bodies</i></b>	
Westgate on Sea Parish Council	1 April 2018
Cantium Business Solutions Limited	1 July 2018
EDSECo Ltd trading as The Education People	1 September 2018
<b><i>Academy Trusts</i></b>	
Veritas Multi Academy Trust	1 May 2018
Fortis Trust	1 June 2018
The Pioneer Academy	1 July 2018
Coppice Primary Partnership	1 September 2018
Fort Pitt & Thomas Aveling Academies Trust	1 September 2018
<b><i>Admitted Bodies</i></b>	
Nourish Contract Catering Limited (Swale Academy Trust)	1 April 2018
Solo Service Group Limited	1 July 2018
Churchill Contract Services Limited (SJWM)	16 July 2018
Cater Link Limited (re Rivermead Inclusive Trust)	1 August 2018
Kingdom Services Group Limited	1 August 2018
Nourish Contract Catering Limited (re Stour)	1 September 2018
Monitor Services Group Limited	1 December 2018
The Marlowe Trust	1 December 2018

Ceased/Merged to Trust Employers	Effective date
<b><i>Academy joined a Multi-Academy Trust / Change of Trust</i></b>	
Danecourt Academy (Argent)	1 April 2018
Veritas Academy	1 May 2018
Bradfields Academy	1 June 2018
Meopham Community Academy	1 August 2018
Schools Company Trust	1 August 2018
Rosherville Church of England Academy	1 September 2018
Walderslade Girls' School Trust	01 October 2018
St James CE Primary School Academy-WAT	01 January 2019

<b>Admitted Bodies</b>	
Principal Catering (Our Lady Of Hartley)	1 December 2017
Mitie Security Limited	1 August 2018
TCS Independent Limited	1 December 2018
<b>Scheduled Bodies</b>	
Sholden Parish Council	1 July 2018
Temple Ewell Parish Council	1 January 2019

4. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County's and schools' relationships with a number of payroll providers.



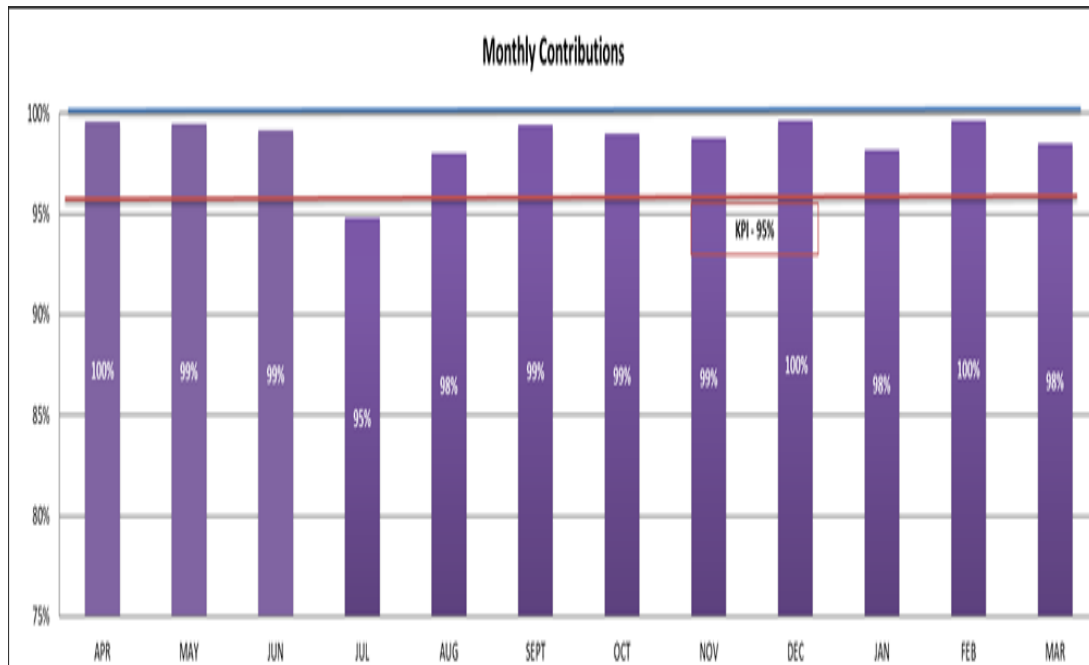
## **CONTRIBUTIONS FROM EMPLOYERS**

5. In 2018-19 the Fund received £228m from Employers in respect of their monthly contributions (employer and employee) as follows:

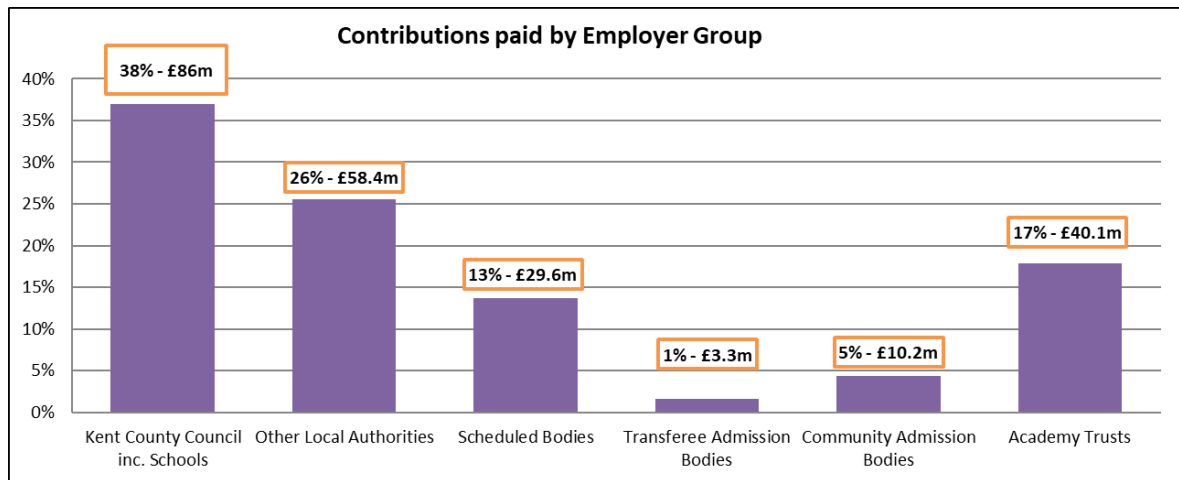
	<b>Received Early</b>	<b>Cash on 19th</b>	<b>Received Late</b>	<b>Total</b>
	£	£	£	£
April	10,125,904	9,140,793	84,200	19,350,896
May	11,766,335	7,105,259	93,664	18,965,259
June	10,401,830	8,559,473	150,331	19,111,634
July	9,095,181	8,875,664	1,023,703	18,994,548
August	10,080,883	8,391,175	375,229	18,847,287
September	11,091,649	7,609,068	42,917	18,743,635
October	10,310,159	8,398,323	221,816	18,930,299

November	10,620,515	8,090,218	262,675	18,973,409
December	11,278,990	7,928,484	68,972	19,276,445
January	11,776,824	6,756,046	348,653	18,881,522
February	12,161,209	6,976,720	72,003	19,209,932
March	9,951,104	8,590,306	286,869	18,828,279
<b>Total</b>	<b>128,660,583</b>	<b>96,421,529</b>	<b>3,031,032</b>	<b>228,113,145</b>

6. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The KPI was exceeded in 11 out of the 12 months and the average for this quarter for contributions received was 99%. The late receipts in July and August were 1-2 days late from 2 local authorities and a college, and officers followed up with the employers.



7. The following chart shows the proportion paid by KCC and other employers of contributions received.



## **EMPLOYER ADMISSION MATTERS**

8. Since we last reported to the Board the following admissions were agreed by the Superannuation Fund Committee.

at its meeting on 16 November 2018;

- a) Deep Beat Entertainment (re Medway Park and Strood Sports Centres).
- b) Compass Contract Services (UK) Ltd (re Fortis Academy Trust).
- c) The Contract Dining Company Ltd (re Barnsole Academy Trust).
- d) Cleantec Services Ltd (re Leigh Academies Trust).

at its meeting on 8 February 2019;

- a) PT Commercial Ltd t/a Ecoclean (re Sunny Bank Primary School in Sittingbourne).
- b) That we may enter into an updated admission agreement with Southern & South East England Tourist Board t/a Tourism South East so that any designated employee may join the scheme.
- c) That we may enter into an updated admission agreement with Birkin Cleaning Services Ltd to reflect their contract extension.
- d) That we may enter into an updated admission agreement with CAPITA Managed IT Solutions Ltd (re St Georges School in Broadstairs) to reflect their contract extension.

and at its meeting on 15 March 2019;

- a) Exclusive Contract Services Ltd (re Orchard Theatre Dartford).
- b) that a Deed of Modification may be entered into with Clarion Housing Association.
- c) to the updated policy for the recovery of Pension Fund costs.

## **HADLOW COLLEGE**

9. Hadlow College is a scheduled body in the Kent Pension Fund and its staff both past and present are members of the LGPS.
10. On Wednesday 22 May 2019 the Secretary of State for Education made an application at the High Court of Justice for an Education Administration Order pursuant to the Technical and Further Education Act 2017 in respect of the Corporation of Hadlow College of Hadlow, Tonbridge, Kent, TN11 0AL. The court granted the order and named partners at BDO LLP have been appointed as education administrators of the College with immediate effect.
11. BDO LLP have written to the Kent Pension Fund, as they are required to inform all creditors of the College, that the Education Administration Order has been made.
12. BDO have also confirmed that the purpose of the Education Administration Order is to protect education provision for learners as the College is facing financial difficulties. They plan to implement a solution to ensure a sustainable future for the College and its learners and this aligns with the law governing the Education Administration Order process.
13. It has been reported that the Department of Education has sought bids from other education providers to take over the College and such a transfer would be undertaken by the education administrators jointly with the DfE. In these circumstances, the risks the Education Administration Order poses to the Kent Fund's interests could be minimal as the College would continue to be a going concern and its finances could have been corrected by the administration process.
14. There is however a risk that the Education Administration Order does not work and in that event the DfE may then choose to proceed to insolvency.
15. The 31 July 2018 accounting report for the college showed a deficit on the FRS102 basis of £6.5m. The Fund's actuary has been asked to provide a cessation report which will give an up to date value for the College's deficit.
16. In order to safeguard the Kent Pension Fund's interests with respect to Hadlow College, officers intend to write to the named partners of BDO LLP and bring to their attention the results of the actuary report when it is available and current position of the Hadlow College LGPS fund so that this liability can be considered in the round and at the early stages of the process.
17. Officers will monitor the progress of the administration and report to the Board and Committee on any further developments.

## **CONSULTATIONS**

### **Fair Deal – Strengthening pension protection**

18. The Ministry of Housing, Communities & Local Government (MHCLG) ran a consultation from January to April 2019 called Fair Deal – Strengthening pension protection. Officers did not respond to the consultation on behalf of the Fund however we are broadly welcome the proposals. As at the date of this report we have yet to be advised of the outcome.
19. The purpose of the Government's proposals are to strengthen pension protection on TUPE transfers and they are in summary;
  - a) The removal of a Broadly Equivalent alternative to the LGPS.
  - b) Deemed Employer status rather than entry via an admission agreement particularly for short term contracts. This should make contracts easier and cheaper to let as well as helping to manage the increasing number of employers in the LGPS which nationally are now at some 16,000.
  - c) Risk sharing between the letting authority and Deemed Employer to be included in commercial contracts on which the Scheme Advisory Board are expected to issue advice.
  - d) All employers, except Admission Bodies, Further Education Corporations, Colleges and Higher Education Corporations to be Fair Deal employers.
  - e) Commercial Contracts must state whether LGPS membership to be via an admission agreement or the deemed employer route.

### **Changes to the Local Valuation Cycle and the Management of Employer Risk**

20. MHCLG is presently running a consultation on changes to local valuation cycles and employer risk which closes on 31 July 2019. Both the Fund and employers are invited to respond. The main proposals are:
  - a) Move to valuations on a 4 year quadrennial cycle starting with the 31 March 2024 valuation, and 2 proposals have been made for the transition;
    - the 31 March 2019 valuation to certify contribution rates for 5 years
    - the 31 March 2019 valuation to certify contribution rates for 3 years and have an additional valuation to certify rates for a further 2 years

The government favours the latter option.

- b) Introduction of interim valuations if required and strengthening the ability to amend employer contribution rates between valuations.
- c) Review the return of exit credits to an employer when they leave the LGPS, particularly in light of any risk sharing agreements between the exiting employer and the letting authority.
- d) Provide greater flexibility around the recovery of exit deficits where an employer leaves the fund including the concept of Deferred Employer Status which would allow an employer to continue to make contributions even when they have no active members left.
- e) Remove the requirement for Higher Education Corporations and Colleges to offer LGPS membership to new staff, although existing staff will continue to be eligible.

### **ACTUARY ISSUES**

- 21. Barnett Waddingham have provided a briefing note which is attached and has been published on the Pension Fund website. The main issues are:

#### **31 March 2019 triannual valuation**

- 22. The 31 March 2019 valuation is currently underway and the results are expected in the autumn and will be shared with employers. The valuation has to be signed off by Barnett Waddingham on 31 March 2020 and the new employer contribution rates will apply from 1 April 2020. Barnett Waddingham are expected to attend the Kent Finance Officers meeting and the November Committee meeting as has been done previously.

#### **Cost management in the LGPS.**

- 23. The cost control mechanism was introduced following the Hutton review, with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.
- 24. There are two cost control mechanisms in place for the LGPS carried out by the Scheme Advisory Board (SAB) and the Treasury (HMT). The SAB test is first and gives early warnings although HMT has the final say.
- 25. The 2016 valuation was the first time the mechanism was utilised. Contrary to what was anticipated the cost of the LGPS is now estimated to be lower than it was previously on both mechanisms, based on the assumptions used. This means benefit improvements are required to bring the total cost back to target.
- 26. SAB have proposed the following benefit improvements to bring the LGPS cost back within the 2% corridor and does not then trigger the HMT cost cap mechanism;



27. Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
28. Introduction of a minimum death in service benefit of £75,000 – this is per member, not per employment;and
29. Enhanced early retirement factors for members active on 1 April 2019, applied to all service.
30. The net cost of these benefits is estimated to be an increase of 0.5% of pay.
31. The review also includes some recommendations around changes to employee contribution rates.

#### The McCloud Judgement

32. The McCloud judgement recently ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed breached age discrimination rules (there was also a similar case in the Firefighters' Scheme).
33. The SAB has therefore considered it has no option but to pause its own cost management process pending the outcome of McCloud. They have commissioned the Government Actuary Department to prepare an assessment of the potential impact on a LGPS scheme wide basis.

#### **RECOMMENDATION**

1. The Board is asked to note this report.

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